

**BANK OF ISRAEL**

Office of the Spokesperson and Economic Information

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Press Release:

**Remarks by Supervisor of Banks Yair Avidan on “The Effectiveness of Information in a Changing Supervisory Environment”**

Good morning.

I am excited to open the Banking Supervision Department’s 2022 conference this morning. While this is my second year in attendance, this conference is a long-standing tradition for the Banking Supervision Department. I am very pleased to see all of you here today: representatives of the banking system, representatives of other regulators, many other people working in the domestic financial sphere, and of course representatives of the Bank of Israel and the Banking Supervision Department.

Thank you to the Bank of Israel Governor, who honored us with an interesting opening speech. I am certain that the Governor’s remarks have provided all of us with food for thought for the rest of the conference, and long afterwards.

Last year, the Banking Supervision Department conference dealt with “challenges and opportunities looking forward”. In my opening remarks, I spoke of the changing economic environment, the removal of barriers to competition, and the maturation of the competitive environment. I mentioned the change in the existing market conditions in view of technological developments, and the entry of tech companies into the financial services field. We dealt at length with the changes in how financial services are provided and consumed, and we spoke about the challenges and opportunities that those changes are creating for the banks’ business models.

This year, we chose to focus the conference on “the world of information”, which is without a doubt one of the main challenges for many companies and organizations, including for the financial and banking systems.

Our focus on the world of information would not have been possible today had it not been for the technological and digital revolution taking place in our time. The world of information has brought us significant developments in the business world in general and in the financial world in particular, thanks to technological developments in the areas of information storage and information processing. These developments make it possible to gather a massive amount of information (“big data”) at relatively low costs, and to translate all of that information into an asset with economic value regarding products, performance, activity, risks, consumer preferences, and the links between them. Technological innovation makes it possible for the financial system to integrate the information and the insights it provides into the day-to-day work processes and decision-making, and thereby to obtain an up-to-date and reliable picture of the financial situation of the bank and of its customers. This picture makes it possible to adapt strategy and business policy, and to provide better responses and service to customers, through the redesign of existing financial products and processes, making them better, cheaper, more accessible, and better adapted to their needs and characteristics.

Today’s information processing tools provide advanced capabilities based on technologies such as artificial intelligence (AI), machine learning (ML), and software communication (API). According to some forecasts, these technologies are expected to change in the coming decades, or even much sooner, from supportive technologies to a dominant factor in decision-making processes in various content areas, including in the world of finance.

The use of information for the purpose of business activity such as marketing, underwriting, control, and monitoring is not new for the banking system or other financial institutions. On the contrary, it has been common practice for a long time. However, systems and models that use AI and ML are expected to increase and greatly enhance such activity, and essentially create a broad range of opportunities and possibilities: faster and more informed decision-making processes; identification of patterns, links, and anomalies that enable proactive approaches to customers; and automation of operational and decision-making processes that until now have required human intervention.

These and many other possibilities must be reflected in improved service and a better service experience for the customer, a faster response capability, the adaptation and improvement of financial products, stronger risk management capabilities, a stronger business model, a more efficient decision-making process, and increased operational efficiency. These are all expected to enhance and accelerate the decomposition of products and services, bring in new participants, and increase competition, and all with the aim of optimizing the state of the customer and of the economy.

The advantages of using information and advanced models are clear and indisputable. However, such activity is not without difficulty and risks. As such, technology must be assimilated and used cautiously and responsibly. Both the professional literature and experience already gained attest to the risks involved in the use of information and advanced models. One of the most significant risks has to do with ethical issues of discrimination, and various tendencies that may be created in the models. These may come to be reflected in prohibited discrimination of customers. Alongside this, there are other risks, such as defective planning of business decision-making mechanisms, creation of a “black box” and the loss of transparency, harming privacy protection, and other issues.

These risks are not dwarfed by the expected advantages and value, and those who choose to use such tools must deal with them thoroughly and intensively. The informed and proper use of data-based models should reduce discrimination and other tendencies. Advanced technology brings with it challenges and opportunities that will require us to adopt new patterns and legal balances, particularly between the broad us of information and the world of privacy. The banking system play an important role in the Israeli economy and in the socioeconomic fabric of our society. As such, it is important that the banking system have a positive influence that serves as an example in this matter, as well as in other important issues in Israeli society.

As regulators, we also have a role in the developing area of information storage and the use of advanced technologies to analyze and process information. Our role in this realm is twofold: as the regulator of the banking system’s activity, and as a regulator that, itself, uses data and advanced technology to fulfill its function.

First and foremost, as the entity responsible for regulation of the banking system, we are obligated to enable the increased use of information in order to promote and adopt new and advanced technologies, models, and methods. The aim of this is to increase the consumer’s well-being and improve his situation. In addition, we have the heavy responsibility of supervising and making sure that this activity is conducted fairly, responsibly, and in an informed manner, including the necessary risk management.

In other words, the Banking Supervision Department’s approach in the area of information is comprised of four complementary foundations: to professionally examine, to enable, to supervise, and to control. This is the approach that we have adopted in many areas that are influenced by technological developments. This is how we acted in relation to the use of cloud services, it is how we are currently acting with regard to cryptographic currency activity, and it is how we will conduct ourselves in the area of information and advanced technologies. It is not always simple. We all operate in a world of compulsions and restrictions, and it sometimes takes time and patience to attain the desired result. But it is our task, and we must do what is necessary. We must continue advancing cooperation and discussion between the various regulators, business partners as information sources, information consumers, the business sector, and interfaces with various government initiatives in order to enable the development of activity on a uniform, fair, and equal playing field. The various regulators will need to expand their toolboxes and make greater use of trials, “sandbox” initiatives, and so forth, with the aim of creating a regulatory environment that enables information to be responsibly leveraged to benefit the public and the economy.

As a regulator entrusted with supervising and monitoring events in the banking system, we also bear the responsibility to use broad data infrastructure and advanced technologies to do our job. Access to information, the use of advanced models, and technological innovation also help the regulator formulate a proper and well-founded policy, streamline, and improve transparency and the information made accessible to the public. In addition, advanced regulators are currently expected to use big data in order to examine the various risks in the banking system and the interrelationships between them, and to thereby identify and warn about developing and intensifying risks and deal with them.

In order to fulfill our function, the Banking Supervision Department gathers a lot of information about the banking system’s activity. In the past year, we examined the information gathering methods of the most advanced regulators in the world, with the objective of rethinking how information is gathered and examining advanced methods that will enable us to improve our processes and obtain more detailed data more rapidly. In parallel, we are implementing new methodologies and methods of information analysis and use with the aim of gaining new insights from existing data.

The availability of information and its use are not solely the realm of financial institutions. On the contrary, the information gathered belongs first and foremost to the customers themselves. The ability to use these information assets helps reduce the asymmetry in ownership of the information, and thereby strengthens the customer’s position, transferring the power to him. The open banking project that we initiated in 2016, and the legislation that was attached to it about a year ago, now enable other entities to use the customer’s information with his consent, thereby offering the customer value through better and less expensive services.. Less than a month ago, another significant step in open banking was launched, as information on credit activity and deposits is now accessible and available. This is, of course, in aition to information on current account and credit card transactions, which has been available for a longer period.

This must be said directly: This is a very large system, with an immense amount of data, complex business processes, and many participants and others who influence it. After each stage in which new information is integrated, the banking information sources must add more information to open banking and prepare for the next stage, while also stabilizing the system and correcting problems that come up. The handling of breakdowns can certainly be complex. Even though we all want to already be at the point where everything works perfectly and the information flows smoothly between the various entities, we must be patient. We must be patient because adapting to the legislative processes and timetables led to relatively rapid development. As such, there may in any case be initial difficulties. Readily available data and proper handling times for breakdowns and problems on the part of all participants in this important ecosystem are immensely important. Therefore, just recently I contacted all of the information sources in the banking system and required them to set a policy for the proper level of service, level of availability, and handlings times for problems. In addition, we are in the midst of regulatory processes that will bring the service and availability levels to the highest standards. These, alongside the implementation of examination and control processes, are expected to ensure the highest level of information sharing.

The banking system is a very significant information source, and this reform is the first step in realizing thee vision and strategy of establishing and creating an “open financial world” – a world in which not only banks, but all financial institutions are information sources that allow information service providers broad opportunities to offer value that is tailored to the customer, which was not possible until recently. Then, we must work together toward a world of “open economy”—a digital ecosystem in which information is stored, arranged, and shared by a wide variety of entities with the aim of creating significant value. A Banking Supervision Department delegation recently traveled to Singapore and Australia to learn and discuss what is being done in this field, alongside other important topics. We learned that in Australia, there is mandatory information sharing in other sectors, such as the energy and communications sectors, and that they intend to continue expanding financial information beyond thee banking system itself, to include information from nonbank credit institutions, insurance companies, and pension funds.

Alongside all the challenges, the usefulness and benefit to customers will be greatly influenced by the business model and the value offered by participants both within and outside the banking system. Most importantly, the trust that consumers place in the development of the ecosystem with all its many layers is a decisive part of its development.

The sparks of this revolution, alongside important initiatives promoted by the Bank of Israel and the Banking Supervision Department in recent years, including one-click mobility, can already be seen, and we are certain that additional welcome effects will be seen in the near future.

In this context, it is important to also mention the customers themselves. There is no doubt that as a society, we face a significant challenge with regard to financial literacy, digital literacy, and information literacy, alongside making banking services accessibly in every channel and in every contact with the customers, by seeing the customer at the center. A broad and comprehensive public response is necessary that will enable our parents, ourselves, and our children to be more informed and more involved consumers. We all have the task of developing and strengthening the public’s sense of responsibility for its financial state and of encouraging it to show initiative and involvement. The Banking Supervision Department has advanced many reforms in recent years, the main aim of which has been to increase customers’ strength and improve their bargaining power through information and the new tools that these reforms have created. In order to generate significant value from these reforms, customers must use their increased competitive power through involvement, initiative, and informed consumerism.

About a year ago, at the last Banking Supervision Department conference, I set a goal for myself and for all of us, to do what is necessary to properly fulfill our function in the Israeli socioeconomic fabric so that all of us would be able to live in a better, fairer, more equal society. I believe that we have come quite a way in a year toward achieving this goal, but there is still a long road ahead of us. Dr. Seuss taught us that “You’re off to great places! Today is your day! Your mountain is waiting so get on your way!” So we have gotten on our way, and together we will continue to move forward, to do, and to act.

There is an interesting and diverse conference ahead of us. During the conference, we will hear much more about the use of artificial intelligence, the connection between man and machine, various aspects of information personalization, and the potential price of losing privacy.

I would like to take this opportunity to thank our speakers, our panel participants, all those who worked hard at organizing this conference, and all of the Banking Supervision Department’s employees.

And of course, I would like to thank you for choosing to come and participate.

But before we continue with the conference, I would like to take the opportunity to share with you just a little of the impressive work the Banking Supervision Department has done in the past year.

Thank you.